



State of California
Franchise Tax Board

Taxation of Nonresidents and Individuals Who Change Residency

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A. Introduction

The laws guiding California's taxation of nonresidents, former nonresidents, and part-year residents changed for taxable years beginning on or after January 1, 2002. The present laws set rules for calculating loss carryovers, deferred deductions, and deferred income. The present laws also change the tax computation method to recognize those items.

This publication provides information on the current method for computing tax if you are a nonresident or part-year resident of California and how to calculate loss carryovers, deferred deductions, and deferred income if you:

- Have always been a California nonresident.
- Change residency from California (move-out).
- Change residency to California (move-in).

FTB Pub. 1031, *Guidelines for Determining Resident Status*, will help you determine your residency status and whether your income is taxable by California.

B. New Tax Computation Method

For taxable years beginning on or after January 1 2002, if you are a nonresident or a part-year resident, you determine your California tax by multiplying your California taxable income by an effective tax rate. The effective tax rate is the California tax on all income as if you were a California resident for the current tax year and for all prior tax years for any carryover items, deferred income, suspended losses, or suspended deductions, divided by that income. Use the following formula:

$$\text{Prorated tax} = \text{California taxable income} \times \frac{\text{Tax on total taxable income}}{\text{Total taxable income}}$$

Key Definitions

California taxable income

California adjusted gross income (AGI) less California itemized or standard deductions.

California AGI

Gross income and deductions derived from California sources for any part of the taxable year during which you were a nonresident plus all items of gross income and all deductions, regardless of source, for any part of the taxable year during which you were a resident.

Total AGI

The adjusted gross income from all sources for the entire taxable year.

California itemized or standard deductions

Determined by applying the ratio of California AGI to total AGI to all itemized or standard deductions allowed to California residents.

Total taxable income

The entire taxable income determined as if you were a California resident for the current taxable year, and for all prior taxable years for any carryover items, deferred income, suspended losses, or suspended deductions.

Restate

To refigure prior year carryovers or pass-through entity basis amounts to determine the allowable amount in the current year. Prior year tax returns are not amended.

Percentage Calculations

Itemized or standard deductions — Divide the California AGI by the total AGI (the result cannot exceed 1.0):

$$\frac{\text{California AGI}}{\text{Total AGI}}$$

Tax rate — Divide the tax on total taxable income by the total taxable income:

$$\frac{\text{Tax on total taxable income}}{\text{Total taxable income}}$$

Credits — Divide the California taxable income by the total taxable income:

$$\frac{\text{California taxable income}}{\text{Total taxable income}}$$

Note: This percentage does not apply to renter's credit, other state tax credit, or credits conditional upon a transaction occurring wholly within California. California allows these credits in full.

The following example shows how the calculation works.

Example 1

You were a Florida resident until March 31, 2002. While a Florida resident, you earned and received wage income of \$15,000 and interest income of \$1,000. On April 1, 2002, you permanently moved to California. While a California resident, you earned and received wage income of \$65,000 and interest income of \$3,000. You are single and had the following itemized deductions in 2002:

Real estate taxes:	\$ 1,200	(California house)
	800	(Florida house)
Mortgage interest:	17,000	(California house)
	3,500	(Florida house)
Charitable contributions:	1,500	(New York Firefighters' Fund)
	<u>\$24,000</u>	

. **Determination:** Calculate your 2002 California tax liability as follows:

California AGI:	\$65,000	(California wages)
	+ 3,000	(Interest earned while a California resident)
	<u>\$68,000</u>	
Total AGI:	\$80,000	(Wages from all sources)
	+ 4,000	(Interest income from all sources)
	<u>\$84,000</u>	
California itemized deductions:	\$24,000	(Total itemized deductions)
	x .8095	(California AGI ÷ Total AGI)
	<u>\$19,428</u>	
California taxable income:	\$68,000	(California AGI)
	- 19,428	(California itemized deductions)
	<u>\$48,572</u>	
Total taxable income:	\$84,000	(Total AGI)
	- 24,000	(Total itemized deductions)
	<u>\$60,000</u>	
Tax on total taxable income:	\$ 3,705	(Tax table)
Prorated tax:	\$48,572	(California taxable income)
	x .0618	(Tax on total taxable income ÷ total taxable income)
	<u>\$ 3,002</u>	
Prorated exemption credit:	\$ 80	(Personal exemption credit*)
	x .8095	(California taxable income ÷ total taxable income)
	<u>\$ 65</u>	
Tax liability:	\$ 3,002	(Prorated tax)
	- 65	(Prorated exemption credit)
	<u>\$ 2,937</u>	

* The new computation method does not change the proration of exemptions credits; the new computation method makes the proration more explicit.

C. Installment Sales

For taxable years beginning on or after January 1, 2002, California taxes installment gains received by a nonresident from the sale of tangible property and intangible property on a source basis. California taxes real property based upon where the property is located. Installment gains from the sale of intangible property are generally sourced to the recipient's state of residence at the time of the sale. California taxes residents on all income regardless of source.

Always a Nonresident

The present laws do not change the taxation of California property installment proceeds if you have always been a nonresident of California. California taxes the installment proceeds received by a nonresident to the extent the income from the sale was from a California source.

Example 2

You have always been a nonresident of California. On March 1, 2001, you sold a California rental property in an installment sale. During 2001 and 2002, you received installment proceeds comprised of capital gain income and interest income.

. Determination:

The capital gain income is taxable by California in both 2001 and 2002, because the property was located in California. The interest income is not taxable by California and has a source in your state of residence.

Example 3

You have always been a nonresident of California. On June 4, 2001, you sold a parcel of land located in Idaho on an installment basis. During 2001 and 2002, you received installment proceeds comprised of capital gain income and interest income.

. Determination:

Your capital gain income is not taxable by California because the source of the gain is Idaho. The interest income is not taxable by California and has a source in your state of residence.

Change of Residency to California (move-in)

If you are a California resident who sold property located outside California on the installment basis while a nonresident, the installment proceeds you receive while a California resident are now taxable by California.

Example 4

On July 1, 2001, while a nonresident of California, you sold a Texas rental property in an installment sale. On May 15, 2002, you became a California resident and on August 1, 2002, you received installment proceeds comprised of capital gain income and interest income.

. Determination:

Your capital gain income and interest income received on August 1, 2002, are taxable by California because you were a California resident when you received the proceeds.

Example 5

On September 1, 2000, while a nonresident of California, you sold stock (intangible property) in an installment sale. On June 1, 2002, you became a California resident and on October 1, 2002, you received installment proceeds comprised of capital gain income and interest income.

. Determination:

Your capital gain income and interest income received on October 1, 2002, are taxable by California because you were a California resident when you received the proceeds.

Change of Residency From California (move-out)

If you are a former California resident, the installment proceeds you receive from the sale of property located outside California that you sold while you were a California resident are no longer taxable by California.

Example 6

In June 1999, while a California resident, you sold a parcel of real property located in Washington in an installment sale. On March 1, 2002, you became an Ohio resident, and on June 1, 2002, you received installment proceeds comprised of capital gain income and interest income.

. Determination:

The capital gain income is not taxable by California because the property was not located in California. The interest income is not taxable by California because you were a nonresident of California when you received the proceeds.

Example 7

In March 2000, while a California resident, you sold a parcel of real property located in California in an installment sale. On June 1, 2002, you became a Washington resident, and on August 1, 2002, you received installment proceeds comprised of capital gain income and interest income.

. . . Determination:

The capital gain income is taxable by California because the property you sold was located in California. The interest income is not taxable by California because you were a nonresident of California when you received the proceeds.

Example 8

In September 1999, while a California resident, you sold stock (intangible property) in an installment sale. On February 1, 2002, you became a Florida resident, and on May 1, 2002, you received installment proceeds comprised of capital gain income and interest income.

. Determination:

The capital gain income from the sale of the stock is taxable by California because you were a California resident when you sold the stock. The interest income is not taxable by California because you were a nonresident of California when you received the proceeds.

D. Individual Retirement Accounts, Employer-Sponsored Retirement Plans, and Compensation

Nonresident

The present laws do not change the taxation of deferred income such as individual retirement account (IRA) income, income from employer-sponsored retirement plans, and compensation income, whether you have always been a nonresident of California or were formerly a California resident.

California does not tax the IRA distributions, qualified pension, profit sharing, and stock bonus plans of a nonresident. California taxes compensation received by a nonresident for performance of services on a source basis. If the services are performed in California, the compensation income is sourced to California.

Example 9

You are a nonresident of California and live and work in Wyoming. Your Wyoming employer temporarily assigns you to California for four months to complete a project. You continue to receive your paycheck from your employer's Wyoming headquarters. You earn \$5,000 per month.

. Determination:

Because you performed four months of services in California, \$20,000 (\$5,000 x 4 months) of your compensation has a source in California and is taxable by California.

Example 10

You lived and worked exclusively in California until you retired on December 31, 2002. You moved to Nevada on January 1, 2003. Your former California employer pays its employees on the 5th of every month. On January 10, 2003, you received in the mail your last paycheck of \$4,000 from your former California employer.

. Determination:

The \$4,000 of compensation is taxable by California because the income has a source in California, the state where you performed your services.

Change of Residency to California (move-in)

For taxable years beginning on or after January 1, 2002, the present laws affect the taxation of your IRA income, income from employer – sponsored retirement plans, and compensation income if you are a California resident and were formerly a nonresident.

Individual Retirement Accounts

You no longer receive a stepped-up basis for annual contributions and earnings on them simply because you were a nonresident when you made the contributions.

The present laws treat you as though you were a resident for all prior years for all items of deferred income, which includes individual retirement accounts (IRAs). Accordingly, you will be allowed a basis for contributions that you actually made, which would not have been allowed under California law had you been a California resident.

California did not conform to the \$2,000 or 100 percent of compensation annual contribution limit permitted under federal law from 1982 through 1986. During these years, California limited the deduction to the lesser of 15 percent of compensation or \$1,500 and denied a deduction altogether to individuals who were active participants in qualified or government plans. Any amounts an individual contributed in excess of California deduction limits during these years create a basis in the IRA.

Example 11

You became a California resident on January 1, 2001. The fair market value of your IRA on January 1, 2001, was \$9,000. Your contributions in excess of California deduction limits during 1982-1986 were \$2,500. You received IRA distributions of \$1,500 in 2001, and \$3,000 in 2002.

. Determination:

Taxable year 2001 (prior law):

California IRA basis, January 1, 2001	\$9,000	(Fair market value on 1/1/01)
Less: IRA distribution	<u>1,500</u>	
California IRA basis, December 31, 2001	<u>\$7,500</u>	

Taxable year 2002 (new law):

IRA distribution, 2002		\$3,000
Less: California IRA basis		
Contributions in excess of California deduction limits	\$2,500	
Less: California IRA basis recovered in 2001	<u>1,500</u>	
California IRA basis available in 2002		<u>1,000</u>
Taxable IRA income		<u>\$2,000</u>

Get FTB Pub. 1005, *Pension and Annuity Guidelines*, for more information regarding IRAs.

Employer-Sponsored Retirement Plans

California taxes qualified pension, profit sharing, and stock bonus plan income you receive as a resident for services performed outside California while you were a non-resident.

Example 12

You permanently moved from Florida to California on January 1, 2002. You received pension income during 2002 through a qualified plan from your former Florida employer.

. Determination:

Your qualified pension income is taxable by California because you were a California resident when you received the income.

Compensation

Compensation you receive as a California resident that accrued before you became a California resident is now taxable by California.

Example 13

You lived and worked in New York until April 30, 2002. You permanently moved to California on May 1, 2002. Your former New York employer pays its employees on the 5th of every month. On May 8, 2002, you received in the mail your last paycheck of \$3,000 from your former New York employer.

. Determination:

The \$3,000 of compensation is taxable by California because you were a California resident when you received the income. If you also paid tax to New York on this compensation, you are allowed a credit for taxes paid.

Get California Schedule S, *Other State Tax Credit*, for more information.

E. Stock Options

Nonresident

California taxes the wage income received by a nonresident from employee stock options on a source basis, whether you were always a nonresident or were formerly a California resident.

Example 14

On February 1, 1999, while a California resident, you were granted nonstatutory stock options. You performed all of your services in California from February 1, 1999, to May 1, 2002, the date you left the company and permanently moved to Texas. On June 1, 2002, you exercised your nonstatutory stock options.

. Determination:

The income resulting from the exercise of your nonstatutory stock options is taxable by California because the income is compensation for services having a source in California, the state where you performed all of your services.

Change of Residency to California (move-in)

If you exercise nonstatutory stock options while a California resident, the resulting compensation is taxable by California because the wage income is recognized while you are a California resident.

If you dispose of statutory stock options in a disqualifying disposition, the resulting compensation and capital gain, if any, are taxable by California because the wage income and capital gain are recognized while you are a California resident.

California also taxes the capital gain income received by a former nonresident from the sale of stock in a qualifying disposition of statutory stock options because the stock is sold while the taxpayer is a resident.

Example 15

On March 1, 1998, while a Nevada resident, you were granted nonstatutory stock options. On April 1, 2002, you retired and permanently moved to California. On May 1, 2002, you exercised your options.

. Determination:

The compensation resulting from the exercise of your nonstatutory stock options is taxable by California because you were a California resident when the income was recognized.

California also taxes the capital gain income received by a former nonresident from the sale of stock in a qualifying disposition of statutory stock options because the stock is sold while the taxpayer is a resident.

Example 16

On February 1, 1998, while a Texas resident, you were granted incentive stock options. On February 1, 2001, you exercised your options. On December 1, 2001, you permanently moved to California and sold your stock on March 1, 2002, for a gain.

. Determination:

The resulting capital gain is taxable by California because you were a California resident when you sold the stock.

Get FTB Pub. 1004, *Stock Option Guidelines*, for additional information on the California taxation of stock options.

F. Deferred Gains and Losses (like-kind exchanges)

When you exchange one kind of property for the same kind of property under the requirements of Internal Revenue Code (IRC) Section 1031, you realize a gain or loss on the transaction and defer paying tax on the gain or claiming the loss until the property is sold or otherwise disposed of. A gain or loss from the sale or exchange of real or tangible personal property located in California is sourced to California at the time the gain or loss is realized.

California Property Exchanged for Out-of-State Property

If you are a nonresident and exchange real or tangible property located within California for real or tangible property located outside California, the realized gain or loss will be sourced to California. Taxation will not occur until the gain or loss is recognized. This requires you to keep track of your deferred California sourced gains and losses to report them to California in the year you sell or otherwise dispose of the property received in the exchange.

Example 17

As a resident of Texas, you exchanged a condominium located in California for like-kind property located in Texas. You realized a gain of \$15,000 on the exchange that was properly deferred under IRC Section 1031. You then sold the Texas property in a non-deferred transaction and recognized a gain of \$20,000.

. Determination:

The \$15,000 deferred gain (the lesser of the deferred gain or the gain recognized at the time you disposed of the Texas property) has a source in California and is taxable by California.

Out-of-State Property Exchanged for California Property

If you exchange real or tangible property located outside California for real or tangible property located within California, the gain recognized when you sell or otherwise dispose of the California property in a non-deferred transaction has a California source and is taxable by California.

Example 18

As a resident of Nevada, you exchanged Nevada business property for like-kind California business property. You realized a \$10,000 gain on the exchange that was properly deferred under IRC Section 1031. You then sold the California business property in a non-deferred transaction and recognized a gain of \$50,000.

. Determination:

Because the property is located in California, the \$50,000 gain has a California source and is taxable by California.

Example 19

While a resident of Kansas, you exchanged real property located in Kansas for like-kind real property located in California. You realized a \$12,000 gain on the exchange that was properly deferred under IRC Section 1031. You then became a California resident and, while a resident, you sold the California property in a non-deferred transaction and recognized a gain of \$40,000.

. Determination:

California taxes the \$40,000 gain because you were a California resident at the time of the sale. If you paid tax to Kansas on the \$12,000 deferred gain, you are allowed a credit for taxes paid.

G. Gains and Losses From the Sale of Trade or Business Property

When you sell property used in a trade or business or certain involuntary conversions (IRC Section 1231 property), losses are netted against gains. If Section 1231 losses exceed Section 1231 gains, the losses receive ordinary tax treatment. If Section 1231 gains exceed Section 1231 losses, the gains receive capital gain tax treatment. Section 1231 gains and losses retain this characterization regardless of whether you change your residency status.

For purposes of computing California taxable income, net only California source Section 1231 gains and losses.

Example 20

You are a resident of Washington. In 2002, your California and non-California source Section 1231 gains and losses included a \$3,000 California gain, a \$2,000 California loss, a \$4,000 Washington gain, and a \$5,000 Washington loss.

. Determination:

Based upon the netting of your total and California source Section 1231 gains and losses, determine your capital gain or ordinary loss as follows:

Taxable year 2002:	Total taxable income	CA taxable income
CA Section 1231 gain	\$ 3,000	\$ 3,000
CA Section 1231 loss	(2,000)	(2,000)
WA Section 1231 gain	4,000	
WA Section 1231 loss	(5,000)	
Capital gain	<u>\$ 0</u>	<u>\$1,000</u>

Example 21

You are a resident of Florida. In 2002, your California and non-California source Section 1231 gains and losses included a \$2,500 California gain, a \$3,000 California loss, a \$1,000 Florida gain, and a \$500 Florida loss.

. Determination:

Based upon the netting of your total and California source Section 1231 gains and losses, determine your capital gain or ordinary loss as follows:

Taxable year 2002:	Total taxable income	CA taxable income
CA Section 1231 gain	\$ 2,500	\$ 2,500
CA Section 1231 loss	(3,000)	(3,000)
FL Section 1231 gain	1,000	
FL Section 1231 loss	(500)	
Ordinary loss	<u>\$ 0</u>	<u>\$ (500)</u>

H. Capital Gains and Losses

For taxable years beginning on or after January 1, 2002, the present laws provide rules for determining capital loss carryovers and limitations if you are a nonresident of California or if you change your residency status.

Always a Nonresident

If you have always been a nonresident of California, you determine capital loss carryovers and capital loss limitations based only upon California source income and loss items in order to compute California taxable income.

Example 22

You have always been a New York resident. In 2002, your California and non-California source capital gains and losses included California capital gains of \$2,000, California capital losses of \$6,000, New York capital gains of \$5,000, and New York capital losses of \$2,000. You had no capital loss carryovers prior to 2002.

. Determination:

Net your capital gains and losses to determine the capital losses allowed in 2002 (the \$3,000 limitation applies) and the capital loss carryover to 2003.

Taxable year 2002:	Total taxable income	CA taxable income
CA capital gain	\$ 2,000	\$ 2,000
CA capital loss	(6,000)	(6,000)
NY capital gain	5,000	
NY capital loss	(2,000)	
Total	<u>\$(1,000)</u>	<u>\$(4,000)</u>
Capital loss allowed in 2002	1,000	3,000
Capital loss carryover to 2003	<u>\$ 0</u>	<u>\$(1,000)</u>

Change of Residency to California (move-in)

For taxable years beginning on or after January 1, 2002, if you have capital loss carryovers and were a nonresident of California in prior years, the capital loss carryovers need to be restated as if you had been a California resident for all prior years.

Example 23

Assume the same facts as Example 22. On January 1, 2003, you become a California resident. During 2003, you sell property located in Wyoming for a capital gain of \$5,000 and incur a \$4,000 capital loss from the sale of property located in California.

. Determination:

Step 1: Restate your 2002 capital loss carryover as if you had been a California resident for all prior years.

2002 Restatement:	Total taxable income
CA capital gain	\$ 2,000
CA capital loss	(6,000)
NY capital gain	5,000
NY capital loss	(2,000)
Total	<u>\$(1,000)</u>
Capital loss allowed in 2002	<u>1,000</u>
Capital loss carryover to 2003	<u>\$ 0</u>

Step 2: Net your capital gains and losses to determine the amount of capital gain income to include in total taxable income.

Taxable year 2003:	Total taxable income
CA capital loss	\$ (4,000)
WY capital gain	5,000
Capital loss carryover	<u>0</u>
Capital gain income	<u>\$ 1,000</u>

Change of Residency From California (move-out)

For taxable years beginning on or after January 1, 2002, if you have capital loss carryovers and you become a nonresident of California, your capital loss carryovers need to be restated as if you had been a nonresident of California for all prior years.

Example 24

Assume the same facts as Examples 22 and 23. On January 1, 2004, you become a nonresident of California again. During 2004, you sell property located in Texas for a capital gain of \$8,000, sell property located in California for a \$9,000 capital gain, and incur a \$5,000 capital loss from the sale of property located in California.

. Determination:

Step 1: Restate your capital loss carryovers as if you had been a nonresident of California for all prior years by netting your capital gains and losses from California sources only.

2002 Restatement:	Total taxable income	CA taxable income
CA capital gain	\$ 2,000	\$ 2,000
CA capital loss	(6,000)	(6,000)
NY capital gain	5,000	
NY capital loss	(2,000)	
Total	\$(1,000)	\$(4,000)
Capital loss allowed in 2002	1,000	3,000
Capital loss carryover to 2003	<u>\$ 0</u>	<u>\$(1,000)</u>

2003 Restatement:	Total taxable income	CA taxable income
CA capital loss, 2003	\$ (4,000)	\$ (4,000)
WY capital gain	5,000	
Capital loss carryover from 2002		(1,000)
Capital gain or loss	\$ 1,000	\$ (5,000)
Capital loss allowed in 2003		3,000
Capital loss carryover to 2004	<u>\$ 0</u>	<u>\$ (2,000)</u>

Step 2: Net your capital gains and losses to determine the amount of capital gain income to include in total taxable income and California taxable income.

Taxable year 2004:	Total taxable income	CA taxable income
CA capital gain	\$ 9,000	\$ 9,000
CA capital loss	(5,000)	(5,000)
TX capital gain	8,000	
Total	\$ 12,000	\$ 4,000
Capital loss carryover from 2003	0	(2,000)
Capital gain income	<u>\$ 12,000</u>	<u>\$ 2,000</u>

Part-Year Resident

If you changed your residency during 2002, compute income and deductions using resident rules for the period of the year you were a California resident and nonresident rules for the period of the year you were a nonresident. Compute any prior year carryover loss as if you were a California resident for all prior years and as if you were a nonresident for all prior years. Prorate both capital loss carryover amounts based upon the period of California residency and the period of nonresidency during the year.

Example 25

You became a California resident on July 1, 2002. Your total and California source capital gains and losses for 2002 are as follows:

<u>Before July 1, 2002</u>		<u>After July 1, 2002</u>	
Total capital gains	\$ 10,000	Total capital gains	\$ 8,000
CA source capital gains	7,000	CA source capital gains	4,000
Total capital losses	(2,000)	Total capital losses	(3,000)
CA source capital losses	(1,000)	CA source capital losses	(3,000)

Your capital loss carryover from 2001 was \$7,000, as if you had been a California resident for all prior years and \$5,000, as if you had been a nonresident for all prior years.

. Determination:

Step 1: Net your total capital gains and losses for the period of residency and your California source capital gains and losses for the period of nonresidency.

CA capital gains, before July 1, 2002	\$ 7,000
CA capital losses, before July 1, 2002	(1,000)
Total capital gains, after July 1, 2002	8,000
Total capital losses, after July 1, 2002	(3,000)
Capital gain before carryover losses	<u>\$11,000</u>

Step 2: Prorate your capital loss carryover amounts based upon periods of California residency and nonresidency during 2002.

Period of Residency

2001 carryover, as if a CA resident for all prior years	\$ (7,000)
CA resident days ÷ total days	
184 ÷ 365	x .5041
Prorated 2001 capital loss carryover	<u>\$ (3,529)</u>

Period of Nonresidency

2001 carryover, as if a non-resident for all prior years	\$ (5,000)
Nonresident days ÷ total days	
181 ÷ 365	x .4959
Prorated 2001 capital loss carryover	<u>\$ (2,479)</u>

Step 3: Compute your capital gain or loss to include in California taxable income.

<u>Taxable year 2002:</u>	<u>CA taxable income</u>
Capital gain before carryover losses	\$11,000
Capital loss carryover, resident period	(3,529)
Capital loss carryover, nonresident period	(2,479)
Capital gain, 2002	<u>\$ 4,992</u>

Get California 540NR, *2002 Nonresident or Part-Year Resident Booklet*, for more information regarding the reporting of capital gains and losses.

I. Passive Activities

For taxable years beginning on or after January 1, 2002, the present laws provide rules for determining the amount of allowed passive activity losses and suspended losses if you are a nonresident of California or if you change your residency status.

Always a Nonresident

If you have always been a nonresident of California, you determine the allowed passive activity losses and suspended losses based only upon California source passive income and loss items to compute California taxable income. Only California source passive losses carry forward into the following year.

Example 26

You have always been a resident of Texas. Prior to 2002, you were not engaged in any passive activities. During 2002, you purchased rental properties in both California and Texas. In 2002, your California and non-California source passive income and losses included California rental income of \$2,000, California rental losses of \$30,000, and Texas rental income of \$4,000.

. Determination:

Based upon the netting of your passive income and losses and the allowance of up to \$25,000 for rental losses, determine your passive losses allowed in 2002 and suspended to 2003 as follows:

Taxable year 2002:	Total taxable income	CA taxable income
CA rental income	\$ 2,000	\$ 2,000
CA rental losses	(30,000)	(30,000)
TX rental income	<u>4,000</u>	<u> </u>
Total	\$ (24,000)	\$ (28,000)
Allowed rental losses	<u>24,000</u>	<u>25,000</u>
Suspended loss to 2003	<u>\$ 0</u>	<u>\$ (3,000)</u>

Example 27

You have always been a resident of New York. Prior to 2002, you were not engaged in any passive activities. During 2002, you became engaged in California and non-California passive activities. In 2002, your passive income and losses included California source partnership income of \$2,000, California source S corporation losses of \$8,000, and New York partnership income of \$3,000.

. Determination:

Based upon the netting of your passive income and losses, determine your suspended losses to be carried forward to 2003 as follows:

Taxable year 2002:	Total taxable income	CA taxable income
CA partnership income	\$ 2,000	\$ 2,000
CA S corporation loss	(8,000)	(8,000)
NY partnership income	3,000	
Suspended loss to 2003	<u>\$ (3,000)</u>	<u>\$ (6,000)</u>

Change of Residency to California (move-in)

For taxable years beginning on or after January 1, 2002, if you had suspended passive losses and were a nonresident of California in prior years, the suspended passive losses need to be restated as if you had been a California resident for all prior years.

Example 28

Assume the same facts as Example 27. On January 1, 2003, you become a California resident. In 2003, your passive income and losses include California source partnership income of \$3,000, California source S corporation losses of \$1,000, and New York source partnership income of \$7,000.

. Determination:

Step 1: Restate your 2002 suspended passive loss as if you had been a California resident for 2002.

2002 Restatement:	Total taxable income
CA partnership income	\$ 2,000
CA S corporation loss	(8,000)
NY partnership income	3,000
Suspended passive loss to 2003\$	<u>(3,000)</u>

Step 2: Net your passive income and losses to determine the amount of passive income to include in total taxable income.

Taxable year 2003:	Total taxable income
CA partnership income	\$ 3,000
CA S corporation loss	(1,000)
NY partnership income	7,000
Total	\$ 9,000
Suspended passive loss, 2002	(3,000)
Passive income, 2003	<u>\$ 6,000</u>

Change of Residency From California (move-out)

For taxable years beginning on or after January 1, 2002, if you have suspended passive losses and you become a nonresident of California, your suspended passive losses need to be restated as if you had been a nonresident of California for all prior years.

Example 29

Assume the same facts as Examples 27 and 28. On January 1, 2004, you become a nonresident of California again. During 2004, your passive income and losses include California source partnership income of \$15,000, California source S corporation losses of \$7,000, and New York source partnership income of \$2,000.

. Determination:

Step 1: Restate your suspended passive losses as if you had been a nonresident of California for all prior years by netting passive income and passive losses from California sources only.

2002 Restatement:	Total taxable income	CA taxable income
CA partnership income	\$ 2,000	\$ 2,000
CA S corporation loss	(8,000)	(8,000)
NY partnership income	3,000	
Suspended passive loss to 2003	<u>\$ (3,000)</u>	<u>\$ (6,000)</u>

2003 Restatement:	Total taxable income	CA taxable income
CA partnership income	\$ 3,000	\$ 3,000
CA S corporation loss	(1,000)	(1,000)
NY partnership income	7,000	
Total	<u>\$ 9,000</u>	<u>\$ 2,000</u>
Suspended loss from 2002	<u>(3,000)</u>	<u>(6,000)</u>
Income or suspended loss, 2003	<u>\$ 6,000</u>	<u>\$ (4,000)</u>

Step 2: Net your passive income and losses to determine the amount of passive income to include in total taxable income and California taxable income.

Taxable year 2004:	Total taxable income	CA taxable income
CA partnership income	\$ 15,000	\$ 15,000
CA S corporation loss	(7,000)	(7,000)
NY partnership income	2,000	
Total	<u>\$ 10,000</u>	<u>\$ 8,000</u>
Suspended loss from 2003	<u>0</u>	<u>(4,000)</u>
Passive income, 2004	<u>\$ 10,000</u>	<u>\$ 4,000</u>

Part-Year Resident

If you changed your residency during 2002, compute income and deductions using resident rules for the period of the year you were a California resident and nonresident rules for the period of the year you were a nonresident. Compute any suspended passive losses as if you were a California resident for all prior years and as if you were a nonresident for all prior years. Prorate both suspended passive loss amounts based upon the period of California residency and the period of nonresidency during the year.

Example 30

You became a nonresident of California on October 1, 2002. Your passive activities did not include any rental properties. Your total and California source passive income and losses for 2002 were as follows:

<u>Before October 1, 2002</u>		<u>After October 1, 2002</u>	
Total passive income	\$ 13,500	Total passive income	\$ 4,500
CA passive income	7,500	CA passive income	2,500
Total passive losses	(3,000)	Total passive losses	(1,000)
CA passive losses	(6,000)	CA passive losses	(2,000)

Your suspended passive loss from 2001 was \$7,000, restated as if you had been a California resident for all prior years and \$5,000, restated as if you had been a nonresident for all prior years.

. Determination:

Step 1: Net your total passive income and losses for the period of residency and your California source passive income and losses for the period of nonresidency.

Total passive income, before October 1, 2002	\$13,500
Total passive losses, before October 1, 2002	(3,000)
CA passive income, after October 1, 2002	2,500
CA passive losses, after October 1, 2002	(2,000)
Passive income before suspended losses	<u>\$11,000</u>

Step 2: Prorate your suspended passive loss carryover amounts based upon periods of California residency and nonresidency during 2002.

<u>Period of Residency</u>		<u>Period of Nonresidency</u>	
2001 suspended loss, as if a CA resident for all prior years	\$(7,000)	2001 suspended loss, as if a non-resident for all prior years	\$(5,000)
CA resident days ÷ total days		Nonresident days ÷ total days	
273 ÷ 365	x .7479	92 ÷ 365	x .2521
Prorated 2001 suspended loss	<u>\$(5,235)</u>	Prorated 2001 suspended loss	<u>\$(1,260)</u>

Step 3: Compute your passive income or suspended loss for taxable year 2002.

<u>Taxable year 2002:</u>	<u>CA taxable income</u>
Passive income before suspended losses	\$11,000
Suspended passive loss, resident period	(5,235)
Suspended passive loss, nonresident period	(1,260)
Passive income, 2002	<u>\$ 4,505</u>

Get FTB Form 3801, *2002 Passive Activity Loss Limitations*, for more information regarding the reporting of passive activity losses.

J. Net Operating Losses

For taxable years beginning on or after January 1, 2002, your net operating loss (NOL) deduction is no longer limited by the amount of NOL from all sources if you are a nonresident or part-year resident of California.

Note: Other present laws suspended the NOL deduction for net operating loss carryovers for the 2002 and 2003 taxable years. Get FTB 3805V, *2002 Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations- Individuals, Estates and Trusts*, for more information regarding net operating losses.

Always a Nonresident

For taxable year beginning on or after January 1, 2002, you are allowed a net operating loss deduction carryover to 2004 for California taxable income based upon California sourced income and deductions, regardless of whether you have an NOL in computing total taxable income.

Example 31

You are a resident of Nevada and operate two businesses. One business is conducted wholly within California and the other business is conducted wholly within Nevada.

In 2001 and 2002, your businesses produced the following results:

Taxable year 2001:	Income/loss all sources	CA source income/loss
NV business	\$ 7,000	
CA business	(2,000)	\$(2,000)
Total	<u>\$5,000</u>	<u>\$ (2,000)</u>

Taxable year 2002:	Total taxable income	CA taxable income
NV business	\$ 9,000	
CA business	(3,000)	\$ (3,000)
Total	<u>\$6,000</u>	<u>\$ (3,000)</u>

. Determination:

Taxable year 2001 (prior law):

Your NOL deduction is limited by the amount of your NOL from all sources. Because you did not have an NOL from all sources, you were not allowed an NOL deduction for California tax purposes.

Taxable year 2002 (present law):

Only your California sourced income and losses are considered in determining if you have a California NOL. For 2002, you have a California NOL of \$3,000. You may carry forward \$1,800 (60 percent of the \$3,000 NOL) to 2004 to offset California taxable income.

Change of Residency to California (move-in)

For taxable years beginning on or after January 1, 2002, if you have NOL carryovers and were a nonresident of California in prior years, the NOL carryovers need to be restated as if you had been a California resident for all prior years.

Example 32

You moved to California on January 1, 2002. In 2001, you operated a business located in Texas and incurred an NOL carryover based on California law of \$6,000 from this business. In 2002, you incurred a \$3,000 loss from your California business and you earned income of \$1,000 from your Texas business.

. Determination:

Step 1: Restate your 2001 NOL carryover as if you had been a California resident for 2001.

2001 Restatement:	Total taxable income
NOL carryover	\$ (6,000)
CA NOL allowed percentage, 2001	<u>x 55%</u>
NOL carryover to 2002	<u>\$ (3,300)</u>

Step 2: Net your 2002 business income and losses to determine the amount of your NOL to carry forward to 2004.

Taxable year 2002:	Total taxable income
TX business income	\$ 1,000
CA business loss	<u>(3,000)</u>
Total	\$ (2,000)
CA NOL allowed percentage, 2002	<u>x 60%</u>
NOL, 2002	\$ (1,200)
Prior year NOL carryover	<u>(3,300)</u>
NOL carryover to 2004	<u>\$ (4,500)</u>

Change of Residency From California (move-out)

For taxable years beginning on or after January 1, 2002, if you have NOL carryovers and you become a nonresident of California, your NOL carryovers need to be restated as if you had been a nonresident of California for all prior years.

Example 33

Assume the same facts as Example 32. Your Texas and California businesses earned income in 2003. On January 1, 2004, you become a nonresident of California. In 2004, your Texas and California businesses earn income of \$5,000 and \$4,000, respectively.

. Determination:

Restate your NOL carryover as if you had been a nonresident of California for all prior years by netting business income and losses from California sources only.

2001 Restatement:	Total taxable income	CA taxable income
Texas source business loss	\$ (6,000)	
CA NOL allowed percentage, 2001	x 55%	
NOL carryover to 2002	<u>\$ (3,300)</u>	<u>\$ 0</u>
2002 Restatement:	Total taxable income	CA taxable income
TX business income	\$ 1,000	
CA business loss	(3,000)	\$ (3,000)
Total	\$ (2,000)	\$ (3,000)
CA NOL allowed percentage, 2002	x 60%	x 60%
NOL, 2002	\$ (1,200)	\$ (1,800)
Prior year NOL carryover	(3,300)	
NOL carryover to 2004	<u>\$ (4,500)</u>	<u>\$ (1,800)</u>

Part-Year Resident

If you changed your residency during 2004, compute your NOL deduction using resident rules for the period of the year you were a California resident and nonresident rules for the period of the year you were a nonresident. Compute any NOL carryovers as if you were a California resident for all prior years and as if you were a nonresident for all prior years. Prorate both NOL carryover amounts based upon the period of California residency and the period of nonresidency during the year.

Example 34

You moved to California on May 1, 2004. Your total and California source income and losses from your business operations for 2004 were as follows:

<u>Before May 1, 2004</u>		<u>After May 1, 2004</u>	
Total business income	\$12,000	Total business losses	\$ (16,000)
CA business losses	(2,000)	CA business income	10,000

Your NOL carryover from 2003 was \$6,000, restated as if you had been a California resident for all prior years and \$3,000, restated as if you had been a nonresident for all prior years.

. Determination:

Step 1: Compute your current year NOL by netting your total business income and losses for the period of residency and your California source business income and losses for the period of nonresidency:

CA business losses, before May 1, 2004	\$ (2,000)
Total business losses, after May 1, 2004	(16,000)
Total	\$ (18,000)
CA NOL allowed percentage, 2004	x 100%
Current year NOL, 2004	<u>\$ (18,000)</u>

Step 2: Prorate your NOL carryover amounts based upon periods of California residency and nonresidency during 2004.

Period of Residency

NOL carryover, as if a CA resident for all prior years	\$ (6,000)
CA resident days ÷ total days	
245 ÷ 366	x .6694
Prorated NOL carryover	<u>\$ (4,016)</u>

Period of Nonresidency

NOL carryover, as if a nonresident for all prior years	\$ (3,000)
Nonresident days ÷ total days	
121 ÷ 366	x .3306
Prorated NOL carryover	<u>\$ (992)</u>

Step 3: Compute your prior year NOL carryover:

NOL Carryover from 2003, resident period	\$ (4,016)
NOL carryover from 2003, nonresident period	(992)
Total NOL carryover from 2003	<u>\$ (5,008)</u>

K. Basis in Pass-Through Entities

Pass-through entities include partnerships, S corporations, and limited liability companies that elect to be treated as partnerships.

Always a Nonresident

Your basis in a pass-through entity for California purposes is equal to your contributions to capital, adjusted by California sourced items only.

Example 35

You are a resident of Nevada. In 2002, you invested \$10,000 in a partnership and became a 50 percent partner. At the close of 2002, the partnership generated a \$4,000 loss. Thirty percent of the loss has a California source.

. Determination:

Compute your year-end basis in the partnership as follows:

Taxable year 2002:		Basis
Contribution to capital		\$10,000
Partnership loss	\$ (4,000)	
California source loss percentage	x 30%	
Partnership source loss	\$ (1,200)	
Partner's percentage of loss	x 50%	
Partner's loss		\$ (600)
Partner's basis, December 31, 2002		<u>\$ 9,400</u>

Change of Residency to California (move-in)

For taxable years beginning on or after January 1, 2002, your basis in a pass-through entity needs to be restated under California law as if you had been a California resident for all prior years. Basis is adjusted for your share of flow-through items, regardless of source, generated during your period of nonresidency.

Example 36

Assume the same facts as Example 35. On January 1, 2003, you become a California resident. At the close of 2003, the partnership generates a \$3,000 loss. Twenty percent of the partnership loss has a California source.

. Determination:

Step 1: Restate your basis in the partnership as if you had been a California resident for all prior years.

2002 Restatement:		Basis
Contribution to capital		\$ 10,000
Partnership loss	\$ (4,000)	
Partnership percentage	x 50%	
Partner's share of loss		<u>\$ (2,000)</u>
Partner's basis, December 31, 2002		<u>\$ 8,000</u>

Step 2: Compute your year-end basis in the partnership.

Taxable Year 2003:		Basis
Partner's basis, 2002		\$ 8,000
Partnership loss	\$ (3,000)	
Partnership percentage	x 50%	
Partner's share of loss		<u>\$ (1,500)</u>
Partner's basis, December 31, 2003		<u>\$ 6,500</u>

Change of Residency From California (move-out)

For taxable years beginning on or after January 1, 2002, if you become a nonresident of California, your basis in a pass-through entity needs to be restated as if you had been a nonresident of California for all prior years.

Example 37

Assume the same facts as examples 35 and 36. On January 1, 2004 you become a nonresident of California again. At the close of 2004, the partnership generates a \$5,000 loss. Forty percent of the partnership loss has a California source.

. Determination:

Step 1: Restate your basis in the partnership as if you had been a nonresident of California for all prior years.

2002 Restatement		Basis
Contribution to capital		\$10,000
Partnership loss	\$ (4,000)	
California source loss percentage	<u>x 30%</u>	
Partnership source loss	\$ (1,200)	
Partner's percentage of loss	<u>x 50%</u>	
Partner's loss		\$ (600)
Partner's basis, December 31, 2002		<u>\$ 9,400</u>

2003 Restatement		Basis
Partner's basis, December 31, 2002		\$ 9,400
Partnership loss	\$ (3,000)	
California source loss percentage	<u>x 20%</u>	
Partnership source loss	\$ (600)	
Partner's percentage of loss	<u>x 50%</u>	
Partner's loss		\$ (300)
Partner's basis, December 31, 2003		<u>\$ 9,100</u>

Step 2: Compute your basis in the partnership for 2004.

Taxable Year 2004		Basis
Partner's basis, December 31, 2003		\$ 9,100
Partnership loss	\$ (5,000)	
California source loss percentage	<u>x 40%</u>	
Partnership source loss	\$ (2,000)	
Partner's percentage of loss	<u>x 50%</u>	
Partner's loss		\$ (1,000)
Partner's basis, December 31, 2004		<u>\$ 8,100</u>

L. Partnerships, S corporations, and Certain Trusts

Nonresident

California taxes your distributive share of partnership, S corporation, and trust income derived from California sources if you are a nonresident of California. Income from a simple trust (one which distributes its income annually) is subject to these rules. Income from other trusts may also be subject to these rules.

Example 38

You are a nonresident of California and hold a partnership interest in a California partnership. You received a Schedule K-1 from the California partnership that included net income of \$10,000 from California sources.

. Determination:

Your \$10,000 distributive share of partnership net income has a source in California and is taxable by California.

Part-Year Resident

If you changed your residency during 2002, or during your partnership's, S corporation's, or trust's taxable year beginning on or after January 1, 2002, California taxes your distributive share of partnership, S corporation, and certain trust income based upon your period of California residency and your period of nonresidency during the partnership's, S corporation's, or trust's taxable year.

The allocation of income between the period of residency and the period of nonresidency must be made in a manner that reflects the actual date of realization. In the absence of information that reflects the actual date of realization, you must allocate an annual amount on a proportional basis between the two periods, using a daily pro rata method.

Example 39

You hold a 50 percent S corporation interest in a Washington S corporation that reports income and losses on a fiscal year ending October 31st of each year. On June 10, 2002, you became a nonresident of California. You obtained interim statements from the S corporation that include the following S corporation net income amounts:

<u>November 1, 2001 - June 9, 2002</u>		<u>June 10, 2002 - October 31, 2002</u>	
Washington net income	\$ 5,600	Washington net income	\$ 4,400
California net income	<u>4,000</u>	California net income	<u>2,000</u>
Total net income	\$ 9,600	Total net income	\$ 6,400

. Determination:

Step 1: Compute your distributive share income based upon periods of California residency and nonresidency during the S corporation's taxable year.

<u>Period of Residency</u>		<u>Period of Nonresidency</u>	
Total net income	\$9,600	California net income	\$ 2,000
% interest in S corporation	<u>x 50%</u>	% interest in S corporation	<u>x 50%</u>
2002 distributive share	<u>\$ 4,800</u>	2002 distributive share	<u>\$ 1,000</u>

Step 2: Compute your distributive share income to include in California taxable income.

<u>Taxable year 2002:</u>	<u>CA taxable income</u>
Distributive share, period of residency	\$ 4,800
Distributive share, period of nonresidency	<u>1,000</u>
Distributive share income, 2002	<u>\$ 5,800</u>

Example 40

You hold a 60 percent interest in a Washington partnership that reports income and losses on a calendar year basis. On September 22, 2002, you became a nonresident of California. You obtained a copy of the partnership tax return for 2002. The total net income from the partnership consisted of the following capital gains on items sold during your periods of California residency and nonresidency:

<u>January 1, 2002 – September 21, 2002</u>		<u>September 22, 2002 – December 31, 2002</u>	
Sale of WA real property	\$ 15,200	Sale of WA real property	\$ 4,400
Sale of stock	<u>2,000</u>	Sale of CA real property	<u>10,300</u>
Total net income	\$ 17,200	Total net income	\$14,700

..... Determination:

Step 1: Compute your distributive share income based upon periods of California residency and nonresidency during the partnership's taxable year.

<u>Period of Residency</u>		<u>Period of Nonresidency</u>	
Total net income	\$17,200	California net income	\$10,300
% interest in partnership	<u>x 60%</u>	% interest in partnership	<u>x 60%</u>
2002 distributive share	<u>\$10,320</u>	2002 distributive share	<u>\$ 6,180</u>

Step 2: Compute your distributive share income to include in California taxable income.

<u>Taxable year 2002:</u>	<u>CA taxable income</u>
Distributive share, period of residency	\$10,320
Distributive share, period of nonresidency	<u>6,180</u>
Distributive share income, 2002	<u>\$16,500</u>

Example 41

You hold a partnership interest in a Texas partnership that reports its income and losses on a calendar year basis. On April 1, 2002, you became a nonresident of California. You received a Schedule K-1 from the Texas partnership that included net income of \$10,000, comprised of \$4,000 from California sources and \$6,000 from Texas sources.

..... Determination:

Step 1: Determine the number of California resident days and nonresident days during the partnership's taxable year.

<u>California Resident Days</u>	<u>California Nonresident Days</u>
January 1, 2002, through March 31, 2002	April 1, 2002, through December 31, 2002
= 90 days	= 275 days

Step 2: Prorate your distributive share income based upon periods of California residency and nonresidency during the partnership's taxable year.

<u>Period of Residency</u>		<u>Period of Nonresidency</u>	
Distributive share income from all sources	\$10,000	Distributive share income from California sources	\$ 4,000
CA resident days ÷ total days		Nonresident days ÷ total days	
90 ÷ 365	<u>x .2466</u>	275 ÷ 365	<u>x .7534</u>
Prorated 2002 distributive share	<u>\$ 2,466</u>	Prorated 2002 distributive share	<u>\$ 3,014</u>

Step 3: Compute your distributive share income to include in California taxable income.

<u>Taxable year 2002:</u>	<u>CA taxable income</u>
Distributive share, period of residency	\$ 2,466
Distributive share, period of nonresidency	<u>3,014</u>
Distributive share income, 2002	<u>\$5,480</u>

Example 42

You hold an S corporation interest in a Florida S corporation that reports income and losses on a fiscal year ending May 31st of each year. On February 1, 2002, you became a resident of California. You received a Schedule K-1 from the Florida S corporation for fiscal year ending May 31, 2002, that included net income of \$10,000, comprised of \$4,000 from California sources and \$6,000 from Florida sources.

..... Determination:

Step 1: Determine the number of California resident days and nonresident days during the S corporation's taxable year.

California Resident Days

February 1, 2002, through May 31, 2002
= 120 days

California Nonresident Days

June 1, 2001, through January 31, 2002
= 245 days

Step 2: Prorate your distributive share income based upon periods of California residency and nonresidency during the S corporation's taxable year.

Period of Residency

Distributive share income from all sources	\$10,000
CA resident days ÷ total days	
120 ÷ 365	x .3288
Prorated 2002 distributive share	<u>\$ 3,288</u>

Period of Nonresidency

Distributive share income from California sources	\$ 4,000
Nonresident days ÷ total days	
245 ÷ 365	x .6712
Prorated 2002 distributive share	<u>\$ 2,685</u>

Step 3: Compute your distributive share income to include in California taxable income.

Taxable year 2002:**CA taxable income**

Distributive share, period of residency	\$ 3,288
Distributive share, period of nonresidency	2,685
Distributive share income, 2002	<u>\$ 5,973</u>

Example 43

You are the sole beneficiary of a simple trust that reported your distributive share income for the short period of January 1, 2002, through September 30, 2002. On April 1, 2002, you became a resident of California. You received a Schedule K-1 from the trust that includes net income of \$10,000, comprised of \$4,000 from California sources and \$6,000 from Nevada sources.

..... Determination:

Step 1: Determine the number of California resident days and nonresident days during the trust's taxable year.

California Resident Days

April 1, 2002, through September 30, 2002
= 183 days

California Nonresident Days

January 1, 2002, through March 31, 2002
= 90 days

Step 2: Prorate your distributive share income based upon periods of California residency and nonresidency during the trust's taxable year.

Period of Residency

Distributive share income from all sources	\$10,000
CA resident days ÷ total days	
183 ÷ 273	x .6703
Prorated 2002 distributive share	<u>\$ 6,703</u>

Period of Nonresidency

Distributive share income from California sources	\$ 4,000
Nonresident days ÷ total days	
90 ÷ 273	x .3297
Prorated 2002 distributive share	<u>\$ 1,319</u>

Step 3: Compute your distributive share income to include in California taxable income.

Taxable year 2002:**CA taxable income**

Distributive share, period of residency	\$ 6,703
Distributive share, period of nonresidency	1,319
Distributive share income, 2002	<u>\$ 8,022</u>

M. Alternative Minimum Tax

The present laws change the alternative minimum tax computation for nonresidents and part-year residents to parallel the changes in the regular tax computation.

The **California alternative minimum tax** of a nonresident or part-year resident is the amount by which the California tentative minimum tax exceeds the prorated regular tax. The computation is as follows:

$$\text{California alternative minimum tax} = \text{California tentative minimum tax} - \text{Prorated regular tax}$$

The **California tentative minimum tax** is the California alternative minimum taxable income multiplied by a rate. The rate is the amount of tax on total tentative minimum tax divided by the total alternative minimum taxable income. The computation is as follows:

$$\text{California tentative minimum tax} = \text{California alternative minimum taxable income} \times \frac{\text{Total tentative minimum tax}}{\text{Total alternative minimum taxable income}}$$

The **California alternative minimum taxable income** is the combined total of the following:

- The alternative minimum taxable income derived from California sources for any part of the taxable year the taxpayer was a nonresident.
- The alternative minimum taxable income from all sources for any part of the taxable year the taxpayer was a resident.

For the period of nonresidency, any carryovers, deferred income, suspended losses, or suspended deductions are included or allowable only to the extent they were derived from California sources.

The **total alternative minimum taxable income** is the alternative minimum taxable income determined as if the nonresident or part-year resident were a California resident in the both of the following:

- Current year.
- All prior years for any carryovers, deferred income, suspended losses, or suspended deductions.

Total tentative minimum tax is the tax on the total alternative minimum tax income.

The following example shows how the calculation works:

Example 44

You and your spouse/RDP moved to California and became residents on May 1, 2002. Combined wages for the year totaled \$170,000. You received \$100,000 after your move to California. On October 1, 2002, you exercised an incentive stock option valued at \$90,000, for which you paid \$10,000 (preference amount \$80,000). Your total taxable income for the year was \$150,000, with \$20,000 in itemized deductions. Five thousand dollars (\$5,000) of the itemized deductions were real and personal property taxes, which are preference items. Your prorated regular tax was \$6,000.

..... Determination**Total alternative minimum taxable income**

Real and personal property tax preference	5,000
Plus: Incentive stock option preference	+ 80,000
Plus: Total taxable income	<u>+150,000</u>
Total alternative minimum taxable income	235,000

Total tentative minimum tax

Total alternative minimum taxable income	235,000
Less: Exemption amount	<u>- 65,114</u>
	169,886
Alternative minimum tax rate	<u>x .07</u>
Total tentative minimum tax	11,892

California alternative minimum tax adjusted gross income

California (regular tax) adjusted gross income	100,000
Plus: Incentive stock option preference amount	<u>+ 80,000</u>
California alternative minimum tax adjusted gross income	180,000

Total alternative minimum tax adjusted gross income

Total alternative minimum taxable income	235,000
Total itemized deductions	20,000
Less: Real and personal property tax preference	<u>- 5,000</u>
Total alternative minimum tax itemized deductions	<u>+ 15,000</u>
Total alternative minimum tax adjusted gross income	250,000

California alternative minimum taxable income

Total alternative minimum tax itemized deductions	15,000
Multiply by the ratio:	

<u>California alternative minimum tax adjusted gross income</u>	<u>180,000</u>	=	
Total alternative minimum tax adjusted gross income	250,000		<u>x .7200</u>

Prorated alternative minimum tax itemized deductions	<u>- 10,800</u>
California alternative minimum taxable income	169,200

California alternative minimum tax

California alternative minimum taxable income	169,200
Multiply by the ratio:	

<u>Total tentative minimum tax</u>	<u>11,892</u>	=	
Total alternative minimum taxable income	235,000		<u>x .0506</u>

California tentative minimum taxable income	8,561
Less: Prorated regular tax	<u>- 6,000</u>
California alternative minimum tax	2,561

Get California Schedule P (540NR), *2002 Alternative Minimum Tax and Credit Limitations – Nonresidents and Part-Year Residents*, for more information regarding California alternative minimum tax.